

EXHIBIT 1

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF TEXAS
WACO DIVISION

WSOU INVESTMENTS LLC * August 16, 2021
 *
VS. * CIVIL ACTION NOS.
 *
CANON, INC. * W-20-CV-980, 981, 982
NXP USA, INC.

BEFORE THE HONORABLE ALAN D ALBRIGHT
MOTION HEARING (via Zoom)

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1 (August 16, 2021, 1:00 p.m.)

2 DEPUTY CLERK: Motion hearing in Civil Action W-20-CV-980,
3 styled WSOU Investments LLC versus Canon, Incorporated, NXP
4 USA, Incorporated and others.

5 THE COURT: If I could have announcements from counsel,
6 please.

7 MR. SIEGMUND: Good afternoon, Your Honor. This is Mark
8 Siegmund for plaintiff WSOU Investments LLC. I'm accompanied
9 by my colleagues Mr. Jon Waldrop, John Downing, Howard Bressler
10 and Heather Kim from Kasowitz Benson and Torres, LLP. We also
11 have WSOU's in-house counsel attending this hearing
12 Ms. Sheyanna Pietras, and Mr. Waldrop will be doing the main
13 speaking today, Your Honor.

14 THE COURT: I think I saw Mr. Zembek as well. I saw
15 Mr. Waldrop, so I already know it's going to be a good day, but
16 I think I saw Mr. Zembek, which means it'll be a great day.

17 MR. ZEMBEK: Your Honor, I apologize. I will not be
18 arguing today. My partner Adam Schramek will be arguing on
19 behalf of NXP. It is a great day to see you as well. And I
20 also have my colleague Eric Green on the line who is visiting
21 from vacation for this particular hearing today.

22 THE COURT: Well, soon I hope you'll be adding a law
23 clerk -- a former law clerk to some of these calls. We need to
24 have equity here when we have Mr. Siegmund on to make sure we
25 have a balance of law clerks always, and so...

1 I know you're getting a great one in the near future.

2 MR. ZEMBEK: We're really excited about it. Thank you,
3 Your Honor.

4 THE COURT: And I'm happy to take up the motion.

5 MR. JACKSON: Good afternoon, Your Honor. It's John
6 Jackson on behalf of defendant Canon, and we also have Rich
7 Martinelli and Michael Chow and Weimin Ning on behalf of Canon,
8 and it's my understanding we actually have three motions on
9 behalf of defendant Canon, and I believe Mr. Martinelli will be
10 taking the lead on those motions. And we've agreed with
11 Mr. Zembek and his colleague Mr. Schramek that the NXP motion
12 would be allocated 20 minutes and that Canon's three motions to
13 dismiss would be allocated 40 minutes.

14 THE COURT: That's absolutely fine with me. I don't care
15 how y'all do it.

16 MR. JACKSON: Okay. Perfect.

17 MR. MARTINELLI: All right. So good afternoon, Your
18 Honor. This is Rich Martinelli. I'll just take it away.

19 So I'd like to jump into the 982 case which is a little
20 bit more complicated than the other two cases because it has a
21 pretty serious direct infringement pleading issue.

22 If you take a look at the WSOU cases, they started with
23 five cases against Canon before Your Honor, and they've dropped
24 two of them already, so now we're down to three infringement
25 cases. This 982 case is no better than the two that they've

1 already dropped.

2 For the purpose of this motion, you don't really have to
3 get deep into any of the technical detail of the '537 patent.
4 There's basically just two really fundamental concepts in the
5 '537 patent claims that you need to focus on. One, they
6 require wavelet compression, and, two, they require
7 transmitting wavelet compressed data wirelessly.

8 To give you a little bit of grounding on what's accused,
9 WSOU has accused Canon's wireless digital x-ray machines, and
10 what those are are devices that in the place of old-fashioned
11 x-ray film, you would have a digital detector. So if you go
12 into the doctor's office, you've broken your arm, they put the
13 digital detector behind your arm, and that receives the x-rays
14 and sends an image wirelessly to a computer that will have some
15 software on it to accept the image.

16 So the fundamental direct infringement here is these
17 wireless x-ray systems that Canon uses don't do any wavelet
18 compression whatsoever. So we're completely at a loss as to
19 how WSOU is -- has any Rule 11 basis for coming forward with
20 this claim, any good faith basis for coming forward with this
21 claim.

22 If we look at the FAC, first amended complaint, WSOU now
23 argues that these products infringe because they use a file
24 format called JPEG 2000. Now, JPEG 2000 is not the regular
25 JPEG that you're used to from your digital cameras. It's a

1 older JPEG format that's actually not used much anymore, and
2 JPEG 2000 is wavelet based. We'll grant them that much.

3 The problem is Canon's products don't use JPEG 2000 at
4 all. As I said, that's what they're arguing in the first
5 amended complaint. This is an entirely new theory. The
6 original complaint that WSOU asserted had a different theory,
7 which we won't get into for the sake of time, but they've now
8 abandoned that theory.

9 So where's the confusion, right? Like why does WSOU think
10 they have a case when we clearly think they don't? So as far
11 as I can understand it, WSOU's entire infringement theory
12 hinges on Canon's support for something called the DICOM
13 standard. And what DICOM is is basically a standard that lets
14 medical devices from a bunch of different manufacturers
15 interoperate. And in doing this interoperation, DICOM
16 specifies a bunch of different image formats that can be used,
17 maybe some devices use JPEG 2000, maybe some other devices use
18 uncompressed data. There's a whole host of them.

19 And the WSOU complaint alleges that because DICOM supports
20 JPEG 2000 and because Canon's accused products support DICOM,
21 Canon's accused products must support JPEG 2000.

22 Now, if they had done a reasonable pre-suit investigation,
23 they would understand that that's not how DICOM works. And
24 they had to get pretty deep into DICOM because they rely on
25 DICOM itself and these things called DICOM compliance

1 statements in the complaint.

2 The way the DICOM standard works is a little bit like the
3 way that the United Nations has six different languages that
4 can be used to do work for the United Nations. So if you want
5 to proceed before the United Nations, you can do so in English,
6 you can do so in Russian, you can do so in French, but that
7 doesn't mean that every single person who goes to the United
8 Nations can speak all six languages.

9 So by the same token, just because Canon's products use
10 DICOM doesn't mean that they support every single format in
11 DICOM. And this is actually readily apparent by not only DICOM
12 itself but the very evidence that WSOU cites in its complaint
13 because DICOM isn't this big monolith where everybody supports
14 every single feature. There's these things called DICOM
15 compliance statements. And so for each product there's a
16 statement that says, hey, everybody. For this product these
17 are the parts of DICOM that I comply with. And that's Exhibit
18 C to WSOU's amended complaint is the DICOM compliance statement
19 for the accused product. And if you look in there, it doesn't
20 support JPEG 2000. If it did support JPEG 2000, it would have
21 had to be in that compliance statement.

22 So we're just at a complete loss as to why they have any
23 basis for alleging infringement here, and if you look at the
24 logic of their infringement allegation, you see that just
25 having DICOM compliance and the fact that DICOM supports JPEG

1 2000 doesn't lead you to believe that Canon's products supports
2 JPEG 2000.

3 So I'd like to turn a little bit to what is WSOU's
4 response to this, right? What do they reply in opposition? Do
5 they explain why we're misunderstanding their allegations and
6 why in fact there is some support for the allegation that we
7 use JPEG 2000? No. They don't do that. Instead what they do
8 is they try and brush it all under the rug and say that this
9 case is a Disc Disease sort of issue where we're arguing about
10 the, you know, amount of proof required and, you know, the
11 threshold for a pleading standard and, you know, saying things
12 like we're asking for claim construction or something else.
13 That's not the issue at all. Right? Disc Disease sets the
14 minimum threshold of data required to adequately plead, but
15 why? What is it trying to show? It's trying to show Your
16 Honor that there's a plausible allegation of infringement. So
17 it's trying to give you enough information to look at the facts
18 and say, okay. This logically holds together. And here it
19 just doesn't. Right? There is zero basis for WSOU to assert
20 that Canon's products use JPEG 2000. If they could provide me
21 any basis, we wouldn't have a complaint here. They've been
22 unable to do so. In the reply they fail to do so.

23 So, you know, in WSOU's response here in a few minutes
24 like -- I'd like to know, like, ask them the question, what is
25 their basis for showing that this product uses JPEG 2000 when

1 in fact it does not? And this has created a bit of a problem.

2 THE COURT: Why don't I do that? Why don't I -- why don't
3 we -- we'll jump over to -- I'm not sure who will be arguing
4 for WSOU, but let -- you've, I think, framed the question that
5 needs to be answered and let's hear it.

6 MR. WALDROP: Good afternoon, Your Honor. Thank you for
7 this opportunity. It's always a blessing and a privilege to be
8 able to address the Court on this issue.

9 If I could just first state, Your Honor, in response to
10 this that this sounded like what we think is improper -- most
11 improper is just essentially a summary -- motion for summary
12 judgment when fact discovery has not opened when we have
13 provided detailed claim charts regarding our infringement
14 contentions which are sufficient under this jurisdiction's case
15 law and even under the positions taken by Canon in other cases,
16 Your Honor.

17 This, Your Honor, I think is the most of the three motions
18 that are pending, Your Honor. This is the one that we find to
19 be the most untimely most premature and the most without merit,
20 given the state of this case and the way the docket is handled
21 here in this jurisdiction, Your Honor.

22 We have a presentation, Your Honor, that we prepared for
23 the Court, and I can take it out of order, Your Honor,
24 regarding the JPEG 2000 issue and the judgment on the
25 pleadings, Your Honor. But essentially this is a case that

1 should be denied as well, because if you will allow me, Your
2 Honor, I will share my screen and the part of the presentation
3 that we have which addresses this particular issue, Your Honor.

4 THE COURT: Yes. Sure.

5 MR. WALDROP: Thank you, Your Honor. Can you see it, Your
6 Honor?

7 (Thumbs up by the Court.)

8 THE COURT: I can. Yes.

9 MR. WALDROP: Okay. Thank you, Your Honor. Great, Your
10 Honor. Then I will proceed, Your Honor.

11 Well, Your Honor, on the 982 case, Your Honor, this is
12 Canon's motion for judgment on the pleadings, Your Honor. As
13 you know, Your Honor, under the 12(c) standard, this is a high
14 standard, Your Honor, and I won't belabor this point on Slide
15 44. But essentially, Your Honor -- and Slide 45 -- we lay
16 out -- WSOU lays out in great detail, Your Honor, its indirect
17 infringement theory, Your Honor, regarding the '537 patent, and
18 that's in Paragraphs 11 and 12 which are the allegations in the
19 amended complaint which set forth our theory with respect to
20 the direct infringement claim as to the '537 patent claims,
21 Your Honor.

22 On Slide 46, Your Honor, we provide for the Court a
23 snapshot of the detailed claim charts that we presented as to
24 the '537 patent where we lay out, Your Honor, our position as
25 to how the '537 patent is infringed by Canon's digital

1 radiographic systems, Your Honor. In fact, our charts
2 specifically identify documents that Canon references JPEG 2000
3 standard, Your Honor, and these are public documents that are
4 cited by Canon in their materials which reference the JPEG 2000
5 standard, Your Honor.

6 Now, this is what they are saying, Your Honor. These are
7 the statements they have made without the benefit of further
8 discovery. Mr. Martinelli seems to be relying on things that
9 have not been disclosed and positions that have not been
10 disclosed in this case, and we take issue with, Your Honor,
11 based on the inconsistent positions that they've made in their
12 public documents, Your Honor.

13 This is all laid out in the first amended complaint, very
14 fulsomely, very detailed, Your Honor, in terms of what our
15 infringement case is, and these documents reference the JPEG
16 2000 standard.

17 Now, I know Mr. Martinelli has presented what I think is
18 an argument for maybe claim construction on argument for maybe
19 expert discovery which hopefully in due course will come in
20 this case, Your Honor, but in their public documents they
21 reference the JPEG 2000 standard, and we have raised this issue
22 with them without a satisfactory explanation. And this is in
23 Slide 46. It's just referencing this detailed claim charts
24 which were provided without --

25 MR. MARTINELLI: Excuse me, Your Honor. I have to jump

1 in. This is still my time.

2 So please tell me which document you're relying on where
3 Canon says it uses JPEG 2000. You showed --

4 THE COURT: Counsel, I don't -- we're not having a
5 discussion here between you all. And so if you would do me the
6 favor of not interrupting opposing counsel, I would appreciate
7 it.

8 MR. MARTINELLI: I apologize, Your Honor.

9 THE COURT: That being said --

10 MR. MARTINELLI: I'm a little bit excited about this.

11 THE COURT: Well, that being said, to your point, I was
12 hoping counsel for WSOU would address that direct question that
13 was -- what was put to you just then. That is why I tossed the
14 ball back over you, Mr. Waldrop. So if you could jump on
15 that -- I understand all the other stuff you're saying about
16 discovery and where we're at in the case and all that, but I
17 think he's put a pretty pointed question to you.

18 MR. WALDROP: Your Honor, they're in the infringement
19 contentions, Your Honor, identifying support in the claim
20 chart, Your Honor, and I can specifically give you the page,
21 Your Honor, if he wants to continue on in his argument. I'll
22 give you the particular page, but it's in the detailed claim
23 chart. It's actually on Page 8 of the claim chart, Your Honor,
24 which is not in front of me now in this slide declaration, but
25 for the Court's record it's on Page 8 of the claim chart.

1 THE COURT: Okay.

2 MR. WALDROP: And I'll hand it back over to Mr.
3 Martinelli. I don't want to take much of his time, Your Honor,
4 but it's on Page 8.

5 MR. MARTINELLI: Okay. So the material that Mr. Waldrop
6 just identified is not in the complaint, but I'm happy to
7 address it. What they've cited --

8 So first and foremost before I go address that, the first
9 amended complaint has zero evidence that Canon's products use
10 JPEG 2000. The information that Mr. Waldrop is talking about
11 in the infringement contentions is a document that, number one,
12 is not made by -- or a product that's not made by Canon, Inc.,
13 the party in this case, and, number two, is not the product
14 that's accused of infringement in this case. So what they're
15 pointing to is something called a PACS server. And so it's
16 another DICOM compliant device. And there was a Toshiba entity
17 that Canon bought sometime ago that makes these PACS servers
18 and makes them in Japan and does not sell them in the U.S. So
19 there are no PACS servers from Canon in the U.S., and that
20 different device, that PAC server, does reference JPEG 2000.
21 That has nothing to do with the wireless device that's being
22 accused of infringement. We've actually provided WSOU a signed
23 declaration to try and help them work through this issue and
24 they still have not been able to articulate how the fact
25 that -- you know, to use my UN analogy, Canon has a cousin back

1 in Japan that can speak Arabic, how that has anything to do
2 with the fact that the accused product here does not do JPEG
3 2000. If the accused product did do JPEG 2000, it would be in
4 that compliance statement that they attached to Exhibit C on
5 the complaint.

6 So to sum up, the complaint doesn't support any plausible
7 claim for infringement. The infringement contentions, they're
8 scrambling. I don't really know why they want to keep this
9 case alive. I wouldn't be here, Your Honor, telling you that
10 the product doesn't have JPEG 2000 if it had JPEG 2000. I
11 wouldn't ruin my credibility like that. So I'm not really sure
12 what they're getting at.

13 While I have a little bit more time, I do want to continue
14 on and talk a little bit about the indirect infringement issues
15 if I may.

16 THE COURT: You can. Of course.

17 MR. MARTINELLI: So the big issue here is that for the --
18 all three cases, Canon had no pre-suit knowledge of the
19 patents-in-suit. So we understand that it's this Court's
20 regular practice that in that case the indirect infringement
21 claims are dismissed without prejudice for the parties to bring
22 them back in later after discovery shows that they might be
23 admissible. That's what we're asking for here. I believe
24 WSOU's position is that the amended complaints or, you know,
25 the amended complaint in the case in the 982 patent (sic) or

1 the original complaint might give a basis for notice. It's
2 Canon's position that that doesn't provide adequate notice and
3 that you shouldn't be able to create a cause of action for
4 indirect infringement based on the complaint itself because
5 that would completely undermine the notice and the notice
6 provisions of indirect infringement law.

7 If we turn to the actual details of the indirect
8 infringement claims, there's a bunch -- a host of other
9 problems that we have that I think the Court should focus on.

10 First, with respect to this 982 case, how could the
11 original complaint have given us any notice of infringement if
12 they've abandoned that theory and have a completely new theory
13 in the FAC? And how can the FAC give us any notice if we don't
14 understand what they're saying and it doesn't actually show
15 infringement? Because we don't use JPEG 2000.

16 Similarly, with respect to the other two cases, there's
17 the 980 case which we're going to be talking about a little bit
18 more with the lawyers from Norton Rose. That case involves
19 Bluetooth. The prior owners of these WSOU patents were all
20 members of the Bluetooth SIG and required pre-licenses to all
21 Bluetooth SIG numbers. The infringement allegations against
22 Canon are that we infringe because we practice Bluetooth, point
23 blank, period, end of story. So we don't see how that puts us
24 on notice of any infringement.

25 Similarly, with respect to the middle case, the -- we call

1 it Case 2, the 981 case, that case also we have serious
2 problems with the infringement allegations which are mentioned.
3 So we don't see how the complaints put us on notice. We don't
4 believe we infringe. There's no evidence of intent to infringe
5 based on the filing of the original complaint in any of these
6 cases.

7 Beyond that, there's also some detailed problems with the
8 actual facts that they're -- that WSOU's relying on to show
9 inducement in the U.S. The inducement facts that plaintiff
10 relies on are largely related to actions of a nonparty Canon
11 USA. So Canon operates in the U.S. through Canon USA which is
12 the sole source for the accused products in this case. Canon
13 does -- Canon, Inc., the party here, does not sell to consumers
14 in the U.S., doesn't talk to consumers here in the U.S. So all
15 of the evidence that plaintiffs rely on for showing inducement
16 doesn't show inducement by Canon, Inc.

17 Now, WSOU could have sued Canon USA. There's no reason
18 why they couldn't have sued Canon USA except for the fact that
19 they must like being before Your Honor, and if they sued Canon
20 USA, they'd have to sue in New York. And that's fine. That's
21 their tactical decision. That's okay for them. But if they're
22 going to make that choice, they have to respect the party that
23 they sued and the fact that it's not Canon USA.

24 So if you look at WSOU's opposition, they say, well, maybe
25 there's a bunch of factual issues about Canon, Inc.'s sort of

1 controlling Canon USA and there's heavy factual issues. Well,
2 if there were those heavy factual issues, they should have sued
3 Canon USA, and if they intend to raise deep factual issues
4 about Canon USA's activities, I need to know that now because
5 maybe that creates a third party witness issue that counsel's
6 (inaudible) transfer based on convenience reference.

7 Right now what we're dealing with in this complaint is
8 something that fails to show indirect infringement because it's
9 all based on activities of a nonparty, and there's no logical
10 connection in the complaint, no factual pleading in the
11 complaint to say that Canon, Inc. has any inducement activities
12 here in the U.S.

13 With that I'm going to reserve the rest of my time,
14 although it's a little hard to figure out how much I have left.

15 THE COURT: Mr. Waldrop?

16 I think to summarize the direct infringement concerns that
17 have been raised, basically -- and, you know, Mr. Martinelli
18 can correct me, but it sounds to me like they're saying the
19 product that you're accusing doesn't do -- cannot infringe. I
20 mean, there's no way it can infringe. And that it's -- and,
21 you know, tell me what I do. It doesn't help me for you just
22 to cite me to Page 8 of your infringement contentions when his
23 response is the product that doesn't have the -- what is the
24 allegedly infringing aspect? What do you suggest I do here?

25 MR. WALDROP: What I suggest, Your Honor, is that we

1 proceed -- how we proceed in other cases and that motion be
2 denied subject to discovery.

3 But to answer your particular point, Your Honor, to answer
4 his point is, Your Honor, there is no evidence and Canon has
5 not provided us evidence or comfort to show that there is no
6 compatibility for JPEG transfer syntax by the accused
7 functionality with respect to -- that would support the JPEG
8 2000 standard. And we have not received documentation that
9 indicates that JPEG 2000 related data can flow through the
10 system, including the accused product. So we don't have any
11 way of knowing or backtracking the origin of a JPEG 2000 data
12 which may flow through the product. They make the claim, Your
13 Honor, that it is the nonparty which is actually a subsidiary
14 of Canon. They say that the servers are not made or sold by
15 Canon. But, nevertheless, Canon understands that these servers
16 are not available in the United States. As such, the server is
17 completely irrelevant to WSOU's allegations. What we're
18 discussing is the capability or the compatibility of JPEG 2000
19 data by the servers, and that has not been provided to us with
20 sufficient comfort, and so that still raises an issue of
21 infringement, Your Honor. And frankly, Your Honor, we feel
22 like we're at a complete disadvantage, given he knows more than
23 we know. We have not had the ability to test any of his
24 declarations. We've had multiple conversations with them about
25 this issue. We've dug in this. We've dealt with this case in

1 good faith. As he even indicated that we dropped patents from
2 the case and proceeded with the ones that we believe show
3 infringement sufficient under detailed claim construction
4 charts, Your Honor, and we have no way of knowing whether or
5 not this JPEG 2000 data is compatible with the servers, Your
6 Honor. And in that sense, Your Honor, we're at a disadvantage,
7 at a loss and at the complete control of Mr. Martinelli and his
8 client in terms of what they want to give us and what they want
9 to say on this call. And I think that highlights, Your Honor,
10 the inappropriateness of the posture of his arguments, given
11 where we are in the case, given the numerous back and forth.
12 So that's all I can say, Your Honor.

13 If the Court is inclined to take this up right now, which
14 would be different than we've done in other cases, then we
15 think that we should be allowed fulsome discovery on this point
16 and allowed to test which are pretty definitive and broad
17 statements by Mr. Martinelli and his client that we can't test
18 at this point. So I think the motion should be denied. And if
19 the Court wants to get to the bottom of this, as we do, we
20 should be allowed fulsome discovery on this and the ability to
21 test this to our satisfaction. And we have no intent in
22 pushing cases that have no merit. We think this one does based
23 on our numerous back and forth with Mr. Martinelli and his
24 client.

25 THE COURT: Anything else, Mr. Martinelli?

1 MR. MARTINELLI: I don't hear any basis for them to say
2 that we have JPEG 2000. The logical connection between, you
3 know, is it true that the product they're relying on to say
4 there's JPEG 2000 support is this Toshiba product that has
5 nothing to do with the accused product? Yes. Mr. Waldrop
6 didn't deny that. There's no logical connection. I think that
7 this case doesn't pass the threshold of stating a claim. I
8 don't think I've heard anything from Mr. Waldrop to show that
9 it passes that threshold. If we're going to go further, I want
10 to figure out what's the quickest and easiest way to get to
11 this resolution because this is a waste of everybody's time.
12 Their theory that the product uses JPEG 2000 is completely
13 unfounded and we need some way to resolve this soon. I don't
14 think they cross the motion to dismiss threshold. If there's
15 some other way, we'll do it another way.

16 THE COURT: So let me ask you this, Mr. Waldrop. I think
17 that's a fair point. I'm always reluctant, I think most judges
18 are, to dismiss things. So you -- we're all together here now.
19 Tell me -- and this is unusual in my court, but the offer was
20 made, and I think it's a -- it was a -- one that is well taken.
21 Specifically what is it that you need in terms of discovery
22 from the defendant to know that they have this potential
23 functionality or that they don't? What is -- and what is the
24 quickest -- I'm happy to do all this on an expedited basis and
25 to take up Mr. Martinelli's suggestion. So tell me what it is

1 that you would want -- what you would want in discovery from
2 the defendant and we'll get that set on a fast track and we can
3 take this up again as a motion for summary judgment in the near
4 future. So what would you like to add?

5 MR. WALDROP: Your Honor, we propose a short deposition
6 and some related documents to resolve this. They said no.
7 They said Japan. It would take months to --

8 THE COURT: Mr. Waldrop, we're past -- you guys I don't
9 think ever learn. Let me put this -- say it one more time. I
10 don't care. I mean, I don't care what you guys discuss. I'm
11 here now. I have the unique ability that none of you all do
12 that if I think it's something's well taken, I'm going to
13 suggest that you do it, and so far people have always taken my
14 suggestion to heart and done it. So all I care about is you
15 have Mr. Martinelli here. He has told me that no matter what
16 you ask for from him, you will not be able to articulate a case
17 of infringement. I will tell you that I'm -- I suspect that
18 may be true, but I don't know. I'm not ready to dismiss the
19 case, but this is your opportunity to tell the defendant what
20 it is you'd like. I certainly think a short or -- you know, a
21 reasonable 30(b)(6) on this topic would be well taken, but tell
22 opposing counsel what evidence it is you'd like to have in
23 advance of that 30(b)(6).

24 MR. WALDROP: Your Honor, a short deposition would be
25 great. Thank you, Your Honor, for that. And also documents

1 that we requested further supporting or relied upon by their
2 witness in their declaration, Your Honor. Any technical
3 documents or source code confirming the declaration or
4 confirming their deposition, that's what we would like, Your
5 Honor. Thank you.

6 THE COURT: Mr. Martinelli, you know, and I don't, what it
7 is that they asked for. Is there anything that they asked for
8 that you are unwilling at this time to provide so that we can
9 move this forward?

10 MR. MARTINELLI: So I don't know that the request was
11 quite detailed enough for me to know, but I'm absolutely
12 willing to be as collaborative as possible to make this happen.
13 I think the only two challenges we have are, number one,
14 proving a negative. So if I -- you know, how do I show them
15 the thing doesn't have JPEG 2000? It doesn't. There's no
16 evidence it has JPEG 2000. So we'll try and work with them to
17 prove them --

18 THE COURT: Well, I think this, and you -- everyone on
19 this call, because I know many of you, are a thousand times
20 brighter than I am, but if -- but Mr. Waldrop is now on the
21 clock to articulate to you specifically what he thinks he --
22 he's going to have to tell you, this is what I think you have
23 and give it to me. One way you prove a negative is that if he
24 says, I want the following six buckets, and you go to your
25 technical people -- and you may already have done it -- and

1 they say, we don't have any of that, then I'm going to take
2 that representation from you as an officer of the Court that
3 there isn't any of that. And so he will have had his
4 opportunity to ask you for documents. You will have fulfilled
5 your obligation. He then gets to take a three- or four-hour
6 30(b)(6) of someone from your shop. And then at end of that,
7 if he doesn't have any information to support his claim,
8 there's a good chance it won't survive your motion. So the
9 burden at the moment is on Mr. Waldrop to articulate for you --
10 and he needs to do it -- Mr. Waldrop, I apologize. I'm talking
11 about you like you're in the third person, but I can assure you
12 that you're sitting -- your handsome visage is sitting right in
13 front of me here, but I'm -- the burden right now is on you to
14 tell Mr. Martinelli, I want exactly this to prove my
15 infringement claim. And Mr. Martinelli, who I don't think I've
16 met before, but I know from anyone who works with Mr. Zembek
17 has an immediate five star representation. And so if he tells
18 me that he doesn't have any of those documents and after the
19 deposition you don't have any more to go with than this, then
20 this claim will probably be short lived.

21 MR. MARTINELLI: Thank you, Your Honor.

22 THE COURT: Anything else on that particular -- on this
23 particular issue?

24 MR. WALDROP: No, Your Honor. Thank you.

25 THE COURT: Okay. Then let's move on to whatever the next

1 issue is.

2 MR. ZEMBEK: Your Honor, this is Richard Zembek. I think
3 the next issue will be NXP's motion to dismiss Canon's third
4 party claim against it. Mr. Schramek will be addressing that
5 on behalf of NXP.

6 MR. SCHRAMEK: Your Honor, we do have a very short
7 PowerPoint we'd like to use during argument if that's okay with
8 you.

9 THE COURT: That's absolutely fine with me. You won't be
10 the first.

11 (Laughter.)

12 MR. SCHRAMEK: All right. Your Honor, I'd like to start
13 by explaining the relationship of the parties. We're here
14 today on NXP's motion to dismiss Canon's third party complaint
15 that essentially asserts a single breach of contract claim for
16 breach of indemnification agreement. NXP acquired Marvell's
17 WiFi Bluetooth business in 2019. And there's a chip that has
18 been going to Canon through distributors both before the
19 acquisition and after the acquisition. As part of that
20 transaction, NXP did undertake those obligations with respect
21 to its sales going forward.

22 Now, that obligation has two parts, these indemnification
23 agreements. The first agreement talks about both defending and
24 indemnifying Canon from claims alleging that the use of the
25 chips and any associated firmware infringes a third-party

1 patent.

2 The second indemnification is limited to indemnification,
3 there is no defense obligation, and it says that Canon will be
4 indemnified for claims alleging infringement of functionality,
5 adopted a standard from Bluetooth of any Marvell products that
6 are sold to Canon. And of course this was an agreement to take
7 on that obligation going forward, so when we refer to Marvell,
8 we're talking about NXP chips going forward since 2019.

9 So those are the two indemnification clauses that are at
10 issue here. They are stated in Paragraphs 13 and 14 of Canon's
11 third party complaint, and those are the clauses that we've
12 moved basically to dismiss their claim for because Canon has
13 not stated a claim under Rule 12(b)(6).

14 If you look at WSOU's claims against Canon, these are the
15 infringement claims. If you've ever seen insurance coverage
16 work, Your Honor, you start with, what does the lawsuit say?
17 What does the insurance agreement say? They'll defend. And
18 let's look at the eight corners of those documents and see
19 whether or not we have a covered claim or not. Is there a
20 defense obligation or not?

21 If you look at WSOU's claims in this amended complaint,
22 Paragraph 12, what they've asserted is that there's an
23 infringement not just of one camera. They do give an example
24 product. That example product does use an NXP chip that in
25 theory could be enabled for a Bluetooth 5, but they assert it

1 also covers numerous other devices that infringe the patent
2 that have been made, used, sold, imported, et cetera, by Canon
3 over the years.

4 Now, you don't have to just look at their amended
5 complaint to know the breadth and scope of their claim because
6 if you look at their preliminary infringement contentions,
7 which we did file as Exhibit 1 to our reply brief, they make it
8 extremely clear that they're looking at products past, current
9 and future that are Canon products that operate in the same or
10 substantially similar manner as that one identified camera as
11 the exemplar infringing product and that they're looking at all
12 past, current and future Canon products that have the same or
13 substantially similar features. So it's a very broad net
14 they've cast that essentially goes to Canon's Bluetooth product
15 line. It's not one camera. The claim has to do with the
16 functionality and Bluetooth compatibility and enabling uses of
17 the entire product line.

18 So let's look at Canon's indemnification claim that they
19 filed against NXP and only NXP, as the Court's record will
20 show. They've asserted a single cause of action and they seek
21 a judgment against NXP that it's liable to Canon to indemnify,
22 defend and hold harmless all claims of WSOU arising from
23 infringement of the '346 patent. So it doesn't matter who
24 made it, doesn't matter who provided the chips. Under their
25 own pleadings in their claim, they said, it's all your

1 liability, NXP.

2 They then want all money they've had to spend in this
3 action, including attorneys' fees, costs, et cetera, and
4 damages and royalties to the extent they're ultimately liable
5 on royalties.

6 Now, if we stop right there and we looked at what did that
7 indemnity clause say, those two indemnity clauses, versus what
8 is WSOU's claim they've asserted in this Court, they're night
9 and day. One of them is very limited to NXP chips, NXP
10 firmware. And when we get to Bluetooth, it's only Bluetooth of
11 any NXP products sold to Canon, and, again, that's limited to
12 indemnification at the end of the day, not a duty to defend a
13 lawsuit.

14 So if we compare that to WSOU's infringement claims, we're
15 talking about a lawsuit against Canon for their entire
16 Bluetooth product line versus one chip that went into one
17 camera that they're trying to argue NXP should have -- be on
18 the hook for everything, for their entire product line.

19 Let's start with the indemnity claim because I think
20 that's the easiest one. In their response they essentially
21 concede that their claim is premature or, as they say, maybe
22 it's overbroad. Well, they have to concede that because these
23 indemnity agreements are subject to California law, and of
24 course in deciding the motion to dismiss the Court will look to
25 California law, and there's a specific provision in the

1 California code on how to interpret indemnity agreements, and
2 it says you can't be liable until the indemnified party
3 actually pays. They have to pay for it and they have to become
4 liable for it. And if you look at the case law, that means a
5 final nonappealable judgment that's been paid. And of course
6 that makes sense, because until we have a final appealable --
7 nonappealable judgment that's gone through discovery, that's
8 gone through the claim construction on all the arguments and
9 all the experts, we don't know at the end of the day which of
10 these products in the product line are ultimately going to be
11 held to infringe. So the indemnification claim should be dead
12 on arrival, and that's exactly what the California Supreme
13 Court explained all the way back to 1970. It says you actually
14 have to incur loss, incur liability and pay it before we start
15 litigating indemnity. So it's a premature claim on the
16 indemnity side.

17 On the defense side WSOU agrees -- I'm sorry -- Canon
18 agrees in its motion to dismiss that this claim is all about
19 Bluetooth 5 compatibility, Bluetooth 5 enabled products, and
20 their entire defense is, look, we're licensed. We get to use
21 Bluetooth 5 enabled products. We get to buy chips from NXP,
22 Samsung, whatever supplier we want because we hold the license.
23 That's a product line defense they're putting up at the same
24 time they're trying to hold the one supplier liable for the
25 entire liability.

1 So if you looked -- and by the way, I want to say here,
2 Your Honor, even though we didn't participate in the briefing,
3 NXP completely agrees with Canon's motion to dismiss, that it
4 has been licensed for this functionality. It's provided that
5 license to the Court. And WSOU really has no explanation as to
6 why they're not bound by that license when they took the
7 patents subject to that license. They acquired it after
8 Alcatel was part of the SIG that had this Bluetooth convention
9 and got a royalty free license.

10 So we can certainly agree that the entire Bluetooth claim
11 should be dismissed. It's not a proper claim. It's not even,
12 you know -- does not meet the standard for a 12(b)(6).

13 But at the same time we're not the ones to defend it.

14 And I want to point the Court to a California Supreme
15 Court case in 2008. And what they said -- as you may have
16 noticed, I started by talking about insurance. I do a lot of
17 insurance class action work. I started talking about
18 insurance, and, you know, you look at the coverage and you look
19 at the claim, but what the California Supreme Court said is,
20 but hold on. An indemnity -- commercial indemnity is not the
21 same as an insurance contract because in an insurance contract
22 we broadly construe coverage in favor of the policy holder.
23 But when we're talking about a commercial indemnity, we
24 narrowly tailor those, and the reason is because it's the
25 indemnitee -- and indemnitee with an EE at the end here --

1 Canon, who may often have the superior bargaining power. So,
2 you know, there's a supplier trying to get a business trying to
3 get a bid and they put an unfair, you know, provision into the
4 contract, a really overly broad indemnification provision, and
5 the courts say, we're going to take that into account, and if
6 there's any ambiguity, we're going to narrowly interpret those
7 agreements.

8 And, Your Honor, that's what we would argue is exactly
9 what is happening here, because if you compare that scope of
10 indemnity we've been talking about, that explains exactly why
11 Canon's claims fail and should be dismissed here at the
12 pleading stage. There is no indemnification claim for any WSOU
13 damages, and so liability and payment of a final judgment that
14 I'm sure if there was a final judgment against Canon they'd be
15 appealing, and we're many years down the road from here.
16 There's no claim to state today. We don't know what products
17 would be ultimately infringed, what the damages would look
18 like, how you would allocate those. It's all premature.

19 There's no specific claim by WSOU that it's NXP's chips or
20 NXP's firmware that infringes. So we're not even in that first
21 indemnification. We're really down to the second that doesn't
22 even have a duty to defend on it, and there's no obligation to
23 defend Canon's entire product line.

24 And, finally, if you look at their complaint, you know,
25 we're talking about the world of indemnification, there's no

1 allegation that they've actually paid anything and no proof to
2 explain how those payments were for NXP chips versus the rest
3 of their product line.

4 The allegations are insufficient. The claims are
5 premature. And, Your Honor, we would ask this Court to dismiss
6 the third party complaint, and we also support dismissal of the
7 Bluetooth claims that WSOU has alleged as infringing because
8 they are clearly licensed for that functionality. Thank you.

9 THE COURT: Response?

10 MR. MARTINELLI: Okay, Your Honor. So at the risk of
11 losing Mr. Zembek's endorsement here, I'm going to have to say
12 that I just really don't get where NXP is coming from here.

13 So to be clear, there is only one Bluetooth 5 chip that
14 has been accused of infringing in this case, and that's NXP's
15 chip. So as a fundamental matter, NXP has a duty to defend its
16 infringement allegations against its chip, and WSOU is
17 unequivocally asserting that Canon's product incorporating that
18 chip infringes.

19 We show in the complaint all of the elements of a contract
20 claim, and what I'm hearing here from counsel is maybe they
21 have some defenses to that, but I don't think that says that
22 they -- that we fail to state a claim. They unequivocally have
23 a duty to defend. Counsel's argument about the two -- the
24 scope of the two indemnities and two different indemnity
25 agreements is pretty detailed contract interpretation that I

1 don't believe appeared in their original brief or in their
2 reply. So I think there's a lot of arguments that could be
3 brought to bear to rebut that. For example, I don't think
4 there's two separate indemnity agreements. I think there's one
5 indemnity agreement which was then further amended to add some
6 additional requirements by NXP.

7 So I don't see anywhere in the agreement where they only
8 agreed to defend against claims against their chip if their
9 chip is the only chip in the case.

10 Let's imagine as a hypothetical that there were two
11 products at issue. There aren't, but let's imagine there were.
12 One was an NXP product and the other was another third party
13 chip maker. We'd expect both of those parties to come in and
14 defend their chips. That's what they agreed to in their
15 indemnity claim.

16 With respect to the scope of the indemnity and the
17 California statute that NXP is relying on, as we state in our
18 brief, we think that they fundamentally just have it wrong.
19 There's two -- it's a somewhat complicated statute. It's a
20 somewhat complicated statute that isn't meant to overrule the
21 express intent of the parties, but Clause 1 of that statute,
22 and we cite a case California Plaza Associates in our
23 opposition brief to show this, says that if there's a duty to
24 defend, that happens immediately. You don't have to wait until
25 there's an actual ruling of infringement and liability. That

1 duty to defend to mean anything has to attach immediately, and
2 that's what Canon is asking for. We don't understand how we
3 could have pled with any more particularity unless NXP is
4 asking for just, you know, some superficial magic words that we
5 had to say.

6 We don't understand how NXP can say that they don't have
7 to defend against their chip other than detailed factual
8 argument they might have about the scope of the contracts or
9 the particular allegations. The bottom line is Canon doesn't
10 make Bluetooth chips, NXP does, and we bought them from them,
11 and NXP agreed to cover any infringement that occurred and to
12 defend us if somebody accused those Bluetooth chips of
13 infringing, and that's all we're asking for. If another chip
14 comes in, there may be an apportionment or some other issue,
15 but right now we're not aware of any.

16 THE COURT: A response?

17 MR. SCHRAMEK: Sure, Your Honor. It's disingenuous to say
18 there's only one chip at issue when, you know, prior to this
19 hearing we sent them a link to another product that uses from
20 another manufacturer Bluetooth 5.0, and the response was, well,
21 that's an affiliate. That wasn't this specific entity. And
22 there were other things that we pointed to on their website and
23 references to where they have a Bluetooth functionality and the
24 fact that, it's even unclear after the response allegations,
25 that this is only limited to Bluetooth 5 or whether or not, you

1 know, it's -- includes predecessor products. So the idea that,
2 you know, NXP is the only chip on the market for them is
3 just -- we don't believe it's true, Judge, but that's certainly
4 outside the record. What's in the record here is very clearly
5 that Mr. Martinelli is trying to transition this representative
6 product to the only product.

7 And if you look at a record and you look at the scope of
8 those indemnifications, the one that he's focused on which is
9 talking about the Bluetooth, it's limited to an NXP chip and
10 it's limited to indemnification. It doesn't say duty to defend
11 anywhere.

12 And even if you look at the very first one, the defense
13 obligation is limited to a specific NXP chip. And that is not
14 what this case is about. That's not what WSOU has alleged, and
15 the idea that a manufacturer can pick one supplier and then go
16 assert the claim that it wants to against that supplier and
17 then act like nothing else is implicated is just not what the
18 law says here.

19 And we don't disagree, decide the duty to defend at the
20 outset. In fact, Your Honor's probably very familiar with the
21 Texas Supreme Court opinions where they talk about the duty to
22 defend you can decide by a declaratory judgment, but, one, I
23 want to point out an important fact here which is you never do
24 it in the same proceeding. The same jury that's deciding
25 liability doesn't decide coverage, doesn't decide

1 indemnification because you don't have the facts yet. You need
2 to make that decision. And here we believe with respect to the
3 issue of -- that has been pled, the claim that has been pled
4 does not state a claim against NXP. For the same reasons we've
5 talked about the breadth of WSOU's relief they're seeking and
6 the idea that we would have to step in and defend that claim,
7 completely inappropriate. And if you look at that California
8 Supreme Court, this is exactly what it said, that when you have
9 a commercial indemnity, you have to be careful and narrowly
10 construe it because you don't want that party to try to flip
11 the liability when that's not what the contract said. We never
12 said we'd take on their entire line of Bluetooth products and
13 defend them against all claims to a patent. We said a single
14 chip, and that is not what this case is about.

15 THE COURT: Anything else?

16 MR. MARTINELLI: Yeah. What NXP is not doing is what
17 counsel just said they agreed to do is defending the allegation
18 against its chip which is the only specific product in this
19 case. The other products that counsel mentioned are not
20 Bluetooth 5. There is no other specific product that WSOU has
21 identified. There is one product in this case, and it's an NXP
22 chip, and NXP has refused to step forward and indemnify. We
23 think that creates a cause of action and we should go forward
24 on that claim, Your Honor.

25 THE COURT: Anything else?

1 MR. ZEMBEK: Your Honor, this is Rich Zembek.

2 One thought that I do have in listening to the argument on
3 this today, I know that the Court is familiar with the
4 Bluetooth standard, the Bluetooth SIG and the royalty free
5 license that goes with it. When we look at the infringement
6 contentions, we see nothing to the Bluetooth standard and no
7 other functionality in those particular contentions, and --

8 THE COURT: Mr. Zembek, if I were to tell you before you
9 started talking I was going to rule in your favor, would you
10 want to keep going, or did -- would you want to make this
11 argument?

12 MR. ZEMBEK: I would probably stop, but Mr. Martinelli
13 would probably want to make this argument.

14 THE COURT: Okay. So I'm going to deny the motion.
15 What is the next motion before the Court?

16 MR. MARTINELLI: Excuse me, Your Honor. You're going to
17 deny which motion?

18 THE COURT: My understanding -- I'm denying NXP's motion.

19 MR. MARTINELLI: Okay. Thank you, Your Honor. I think
20 that's it for today then.

21 THE COURT: That's it?

22 MR. WALDROP: There was one issue, Your Honor, if I may,
23 Your Honor --

24 THE COURT: Sure. Of course.

25 MR. WALDROP: -- for clarification on.

1 Just on Canon's motion to dismiss our indirect
2 infringement claims, Your Honor.

3 THE COURT: Oh, I'm sorry. Thank you for reminding me.
4 So here -- I don't know why I would handle this any differently
5 than I handle it in every other case, and I'm about to get a
6 standing order out on this, I think, which is when a defendant
7 moves to dismiss claims of indirect infringement absent your
8 ability -- I'll make this up -- to say, actually, Judge, you
9 know, we talked. You know, we had one of those negotiations
10 you have between parties where you talk about patents and
11 licensing and all that. Absent some kind of easy evidence that
12 shows there might be a date earlier than the date of the filing
13 of the lawsuit, I dismiss the claims without prejudice.
14 Whenever your Markman hearing is set, you'll have three months
15 post Markman to get discovery done. You can take discovery on
16 any -- from -- you can take discovery from Canon to help
17 establish your indirect infringement claim. They can't say,
18 well, it's not in the pleading, so you don't get to ask about
19 it. You do get to ask about it.

20 You have three months to amend your pleadings and add back
21 in your indirect infringement claims. You don't need to ask
22 for permission from Canon. I'm agreeing that you have that
23 now. But I didn't hear anything in the arguments back and
24 forth why I would change my method of doing that today unless I
25 missed something.

1 MR. WALDROP: Your Honor, just one quick question, Your
2 Honor, regarding --

3 THE COURT: Sure.

4 MR. WALDROP: This relates to pre-suit infringement only
5 or post-suit infringement regarding indirect infringement
6 claims? I know --

7 THE COURT: Both.

8 MR. WALDROP: Both. So it relates to both.

9 THE COURT: I don't -- the juice is not worth the squeeze
10 of me fighting over this issue right now. You will have an
11 opportunity to amend your pleadings and get set in concrete by
12 three months after the Markman. You'll have had an opportunity
13 to take discovery on this, which I don't permit prior to the
14 Markman. So you'll have your opportunity if you decide to add
15 them -- the claims back in, you can do that by simply amending
16 your pleading. You have permission to do that, at which time
17 Canon can file a motion for summary judgment on that issue if
18 they believe that's appropriate.

19 Is that clear enough for everyone?

20 MR. WALDROP: Yes, Your Honor. Yes, Your Honor. Yes,
21 Your Honor. I would only note, Your Honor, that this is a new
22 practice. We would only just point that we saw recently in the
23 USC IP Partnership versus Facebook case where the Court denied
24 a motion to dismiss post-suit indirect infringement claims, is
25 the Court going away from that?

1 THE COURT: Yeah. No. For clarification I think that's a
2 good thing to raise. Yeah. I'm finding that if I don't do
3 this now, then I'm going to have to deal with it possibly after
4 the jury comes back, what evidence was there really of indirect
5 infringement afterwards or willfulness -- especially
6 willfulness. And so I want to give plaintiff every opportunity
7 to articulate -- after getting discovery to articulate as
8 clearly as possible for the Court and give sufficient
9 information to the defendant that they've -- it's fair to them
10 and they can defend against whatever claims you make in your
11 complaint, and then -- I'm learning on the job, as you might
12 imagine, and recently in a couple of cases where I've had to
13 address the issue of willful infringement, I'm trying to tinker
14 with some things there as well.

15 So, you know, it's all -- things will continue to be
16 modified as I get better at doing this job. And I have a long
17 way to go to get better at this job. Lots of things to do.

18 So is there anything else we need to take up?

19 MR. WALDROP: No, Your Honor. Thank you for the
20 clarification, Your Honor. Thank you very much.

21 THE COURT: You're very welcome.

22 Anything else from Canon or from NXP?

23 MR. MARTINELLI: Nothing from Canon, Your Honor.

24 THE COURT: Thank you. Y'all have a good day. Take care.

25 (Hearing adjourned at 1:57 p.m.)

1 UNITED STATES DISTRICT COURT)
2 WESTERN DISTRICT OF TEXAS)
3

4 I, Kristie M. Davis, Official Court Reporter for the
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12
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